Economic Viewpoint

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Asia: Issues for the medium term, challenges and opportunities

Asia is one of the world's main drivers of economic growth. But with China at its core, doubts are starting to multiply about the outlook for the years ahead. This *Economic Viewpoint* attempts to shine a spotlight on the main issues for the medium term, and on the factors that influence the potential of the Asian economies. We are able to conclude that many opportunities will continue to present themselves for investors who are interested in this region, provided that the major Asian economies (China in particular) give a decent performance and successfully carry out the reforms that are needed for them to continue developing.

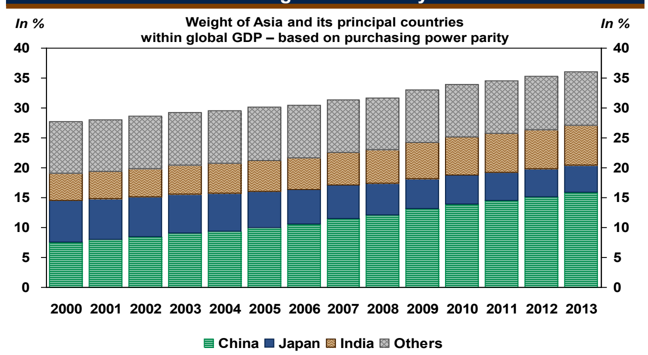
ONE CONTINENT, BUT VERY DIFFERENT ECONOMIES

Perhaps to a greater degree than the other continents, Asia (including Oceania) exhibits a wide range of very disparate types of economies. Some (like Japan) have been members of the advanced countries club for quite some time; others (like South Korea) joined that club more recently. Some other advanced countries (Australia and New Zealand) are more focused on commodity exports. In the centre of the continent, carrying tremendous weight, we find China, which exhibits some aspects of a modern economy and others of a developing economy. Finally, surrounding these larger economies, we find countries with varying levels of development, like Vietnam, Thailand, Singapore and the Philippines.

The growth achieved by the Asian economies (especially China) over the past 15 years means that they are carrying more and more weight within the global economy (based on purchasing power parity), from 27.7% at the beginning of the 2000s to 36.1% in 2013 (graph 1). Obviously, heavyweights China, Japan and India are at the core of the region's economic importance, with Indonesia and South Korea following not too far behind.

This economic importance stems to a large degree from the size of the Asian population. The continent is home to 60.3% of the world's population, i.e. 4.433 billion people. But it is clear that the Asian economy is relatively poor on average. In terms of national income per capita, Japan, South Korea and Australia are at levels comparable to those of the United States, Canada or the major European countries. China, India and the other emerging or developing Asian countries stand far behind (graph 2 on page 2). We do note definite improvement over the years, though (graph 3 on page 2). It is the continuation of that improvement, in other words, the collective enrichment of the emerging Asian countries, that offers one of the most interesting investment opportunities for the long term, as the domestic demand of these countries with relatively large populations becomes more mature.

Graph 1 – Asia is carrying more and more weight in the global economy



Sources: World Bank and Desjardins, Economic Studies

ECONOMIES THAT ARE DEPENDENT ON THE GLOBAL CONTEXT

Even though the Asian population is enormous, the region's economy depends to a large extent on the robustness of foreign demand. On average over the past ten years, China's

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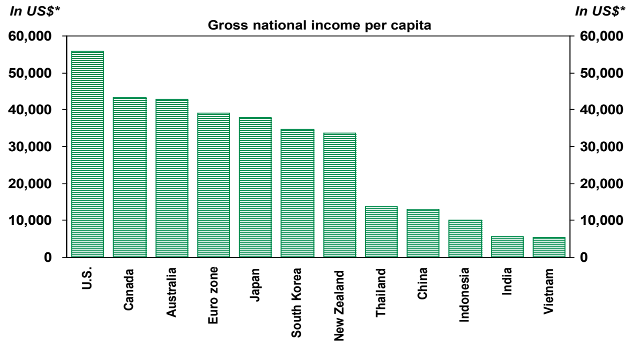
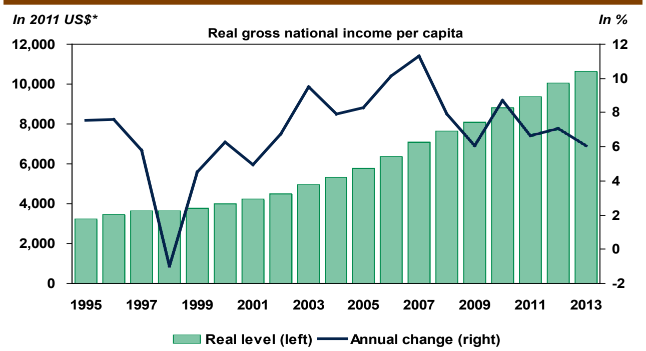
Graph 2 – The emerging countries of Asia are lagging far behind in terms of per capita income



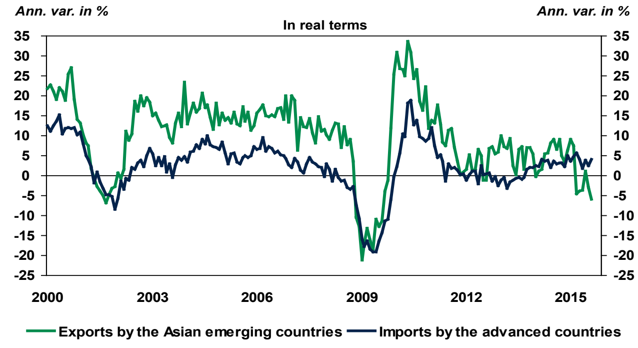
* Based on purchasing power parity.
Sources: World Bank and Desjardins, Economic Studies

Graph 3 – Per capita income accelerated in the emerging countries of Asia during the 2000s



* Based on purchasing power parity.
Sources: World Bank and Desjardins, Economic Studies

Graph 4 – The emerging countries of Asia recorded fast export growth during the 2000s



Sources: CPB Netherlands Bureau for Economic Policy Analysis and Desjardins, Economic Studies

exports have represented 29.3% of its GDP; that ratio is 36.0% for the emerging countries of eastern Asia and the Pacific considered as a group. That proportion is generally smaller for the advanced countries in the region (19.8% in Australia, and 14.9% in Japan), although it is very high in South Korea (44.3%). In the emerging countries of southern Asia, exports account for a more modest share of GDP (19.9%).

Thus, global GDP growth (especially domestic demand in the advanced countries) is a key factor for production growth in Asia, particularly in the emerging countries and in the countries that export commodities. The region's exports benefited greatly from the acceleration in imports by the advanced countries in the first half of the 2000s (graph 4).

We note that this momentum has slowed considerably in recent years. Exports as a share of GDP have recently declined for most of the Asian countries. Economic growth has also lost steam, but not as much as foreign trade. The International Monetary Fund (IMF) sees this as a sign of a reduction in "export income elasticity"; in other words, the role played by exports in the growth of national revenue is shrinking in the Asian countries. This phenomenon is mainly seen in the region's emerging countries. The IMF attributes this to a few causes. First, and in the short term: the weakness of Chinese and global demand. Second, in the medium term: the rebalancing of the Chinese economy, which is gradually shifting towards a greater focus on domestic demand for services. Third: advancement in the degree of sophistication of Chinese production, which limits growth in imports of certain types of goods.

The fact remains that global economic growth, which remains modest, will not help the Asian economies to accelerate. The soft growth potential that is already evident in many advanced economies (and in some emerging ones) constitutes an impediment to Asian growth. In these conditions, greater diversity in international trade, and the disappearance of certain barriers to foreign trade which could result from the ratification of the Trans-Pacific Partnership (TPP) among others, are attractive possibilities.

MORE CHALLENGING ECONOMIC CONDITIONS

Given the weight it carries within the region and even within the global economy, China wields great influence over the regional economy. When the Chinese economy was posting strong rates of real GDP growth, the entire region reaped the benefits. The impetus of globalization that characterized the 1990s and 2000s also greatly influenced the ups and downs of Asian economic conditions. However, each country of the region has its own peculiarities and its own reaction to the current economic conditions. Here is a quick rundown on where the largest economies of the region currently stand, and the main challenges they face.

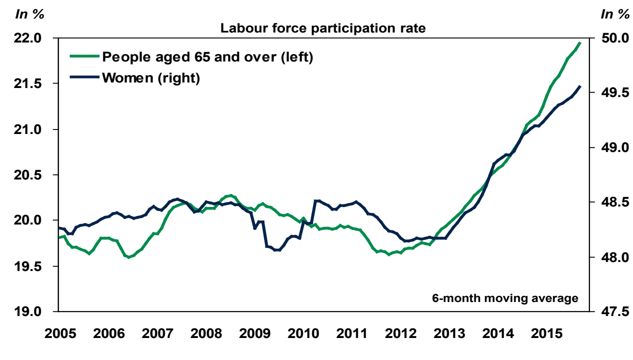
China (15.9% of global GDP): Growth is still moderating in China. This slower pace is mainly caused by a combination of several years of modest growth in the advanced economies, an exchange rate that has appreciated against the country's trading partners (with the exception of the United States), and the remodelling of the domestic economy. The services and consumption sector is providing some support. In addition, the government authorities are attempting to mitigate the slowdown with certain measures, in particular monetary policy. With no parallel development in the real economy, the stock market boomed during 2014 and at the beginning of 2015, only to abruptly collapse thereafter (graph 5). We must keep in mind, though, that the Chinese equity market is still relatively small, and that the consequences of these sudden movements for the Chinese and global economies should be marginal. China is facing many challenges in the years ahead. Its long-term economic health depends to a large extent on the government's willingness to move forward with reforms designed to liberalize the economy, and on the success of those efforts.[1]

Graph 5 – The Chinese stock market recently enjoyed a period of euphoria, only to quickly deflate

Sources: Datastream and Desjardins, Economic Studies

Japan (4.5% of global GDP): Japan's economic situation is characterized by very sluggish and rather volatile real GDP growth. According to the Organisation for Economic Co-operation and Development (OECD), Japan's growth potential is a mere 0.6%. To combat this weak growth, low inflation and one of the largest public debts in the world, solutions are as scarce as they are urgent. Fortunately, the weakness of the yen is helping to calm matters by supporting a turnaround in net exports, which is helping to support growth in the short term. In addition, some of the government's core reforms are starting to bear fruit, in particular greater participation in the labour force by seniors and women, which helps compensate for demographic shortfalls (graph 6). Japan is also continuing to maintain a strong position in terms of productivity and innovation.

Graph 6 – Some reforms in Japan are beginning to pay off



Sources: Ministry of Internal Affairs and Communications and Desjardins, Economic Studies

India (6.7% of global GDP): While the majority of the emerging countries, especially China, are experiencing a slowdown in their economies, the Indian economy is picking up steam. It was energized by the election of a new government in 2014. This improvement is mainly thanks to an acceleration in investment, encouraged by the government's reforms. The continued implementation of those reforms is the key issue for the Indian economy in the years to come. There are still many hurdles to be overcome in order to achieve full use of India's resources, in particular a serious infrastructure deficit; but as the economy becomes more liberalized, the growth potential could expand.

Indonesia (2.3% of global GDP): Growth is still relatively robust in Indonesia, but it has lost steam due to the effects of the flagging Chinese economy and the slump in commodity prices. Some domestic factors are also contributing to this slackening pace, such as slower growth in public investment. The Indonesian economy will continue to depend to a large extent on that of China, but in the longer term, this country could take advantage of its abundant natural resources (oil, natural gas, numerous minerals and agricultural commodities). This economy could eventually benefit from investment towards increasing the local value added by processing its commodities. Indonesia also has a plentiful workforce; it has the largest population in the world after China, India and the United States.

South Korea (1.6% of global GDP): South Korea's real GDP growth flagged in 2015, mainly due to slower growth in exports. The Korean economy is also shifting towards growth that stems more from domestic demand, but that demand is currently undermined by low levels of household and business confidence. In the last decade, the Korean economy has become more liberalized with a more flexible labour market, investment growth that is less dependent on the large industrial conglomerates, and a

[1] For more information on the situation in China and its reforms, see our *Economic Viewpoint* titled "The Chinese economy's uncertain future" published on November 2, 2015, www.desjardins.com/ressources/pdf/pv151102-e.pdf?resVer=1446481385000.

bigger role for the service sector. Productivity is still high in South Korea.

Australia and New Zealand (1.2% of global GDP): These economies are also affected by the slowdown in China and by lower commodity prices. The Australian economy is also held in check by high levels of household debt, although these are counterbalanced by a relatively high savings rate. There is considerable growth potential in Australia and New Zealand: 2.6% and 2.9% respectively; these figures are higher than the OECD average, which is 1.9%. Moreover, their public finances are quite healthy and provide some manoeuvring room. Access to qualified workers is still a constraint for these economies.

Other countries: Most of the emerging economies of Asia other than those already discussed are facing similar conditions; that is, they are also severely affected by limp global demand and, more particularly, by the slowdown of the Chinese economy. They are also suffering the consequences of some degree of distrust towards the emerging economies in general, which has led to outflows of funds and, through a ricochet effect, exacerbated volatility in the financial markets. As a result, financial conditions have generally been tightened, dampening domestic demand.

DEMOGRAPHIC ISSUES

Many parts of the world are currently experiencing a sharp deceleration in population growth, which is affecting their growth potential. This is especially the case in many European countries. Asia is not entirely immune to this phenomenon, but across the region, there are great disparities.

The population of East Asia as a whole grew by a little over 15% in ten years, between 1975 and 1985 and between 1985 and 1995. That growth subsequently slowed considerably, with gains of 6.1% between 1995 and 2005 and 4.9% between 2005 and 2015. This mainly reflects the situation in China, in particular due to the "one child" policy. Population growth per decade reached more than 16% in China between 1975 and 1995. It is now only 5.4%. And according to the average forecasts compiled by the United Nations, the gain will be a mere 2.8% between now and 2025.[2] Other countries also bear a share of responsibility for the weaker population growth in Asia, especially Japan, which has seen its population shrink by 0.3% over the past ten years; it is expected to contract further, by 2.9%, over the next decade. The situation in South Korea is very similar to that of China (a plunge from 16% growth in ten years, to less than 6%), but future growth there will decelerate a bit less; an increase of 3.4% is expected between now and 2025.

Some other major countries in the region will maintain a fast pace of population growth, although the rates will be less robust than they were 20 years ago. For example, India has seen population growth of 14.6% since 2005, and a gain of 11.5% is expected in the next decade. In Indonesia, the gain over the past ten years is 13.8%, while an increase of 10.5% is anticipated between now and 2025.

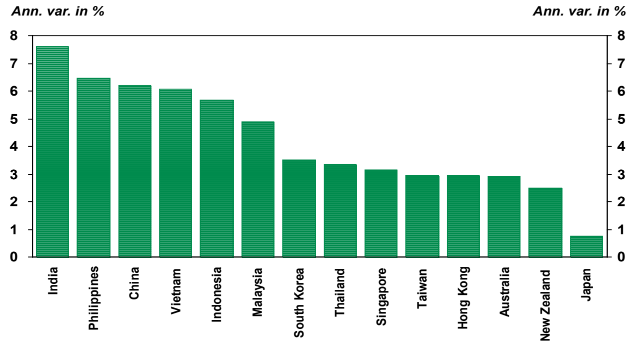
In Australia and New Zealand, the growth rates are, and will remain, relatively stable: around 12% in ten years.

We note that the demographic effects will be very different from one country to another. The opportunities arising from a growing labour force will be more obvious in India and in Indonesia, as well as in the Philippines (+15.3% by 2025), Malaysia (+13.2%), Singapore (+11.2%) and Vietnam (+9.3%). But the beneficial effects on growth depend on the degree to which this population participates in economic activities, especially in the more industrial sectors and, later, the more sophisticated ones. In China, for example, internal migration from the poorer rural regions to the more industrial cities on the coast has completely offset the effects of slower growth of the total population. The fact remains that the contrast with the advanced countries is significant. In the next ten years, population growth of just 0.8% is expected in the euro zone, 7.2% in the United States and 8.7% in Canada.

POTENTIAL, STRENGTHS AND WEAKNESSES

The main sources of forecasts of economic growth potential focus mainly on the advanced countries and on the leading emerging countries. For China, the OECD is calling for a potential of 7.0% in China in 2016, versus 10.2% between 2000 and 2009. Even though they are not a precise measurement of real GDP growth potential, the IMF's long-term forecasts offer a second opinion (graph 7), however.

Graph 7 – Average of International Monetary Fund forecasts for real GDP growth between 2016 and 2020



Sources: International Monetary Fund and Desjardins, Economic Studies

[2] These forecasts were made before the Chinese authorities announced in October 2015 the end of the "one child" policy.

In the case of China, the IMF is predicting average growth of 6.2% from next year to 2020. It is therefore clear that the Chinese economy will remain relatively slow compared with what we have been used to. Moreover, in order for it to even reach that potential or to not adversely affect it, the authorities will have to succeed in implementing the reforms that are needed, and further liberalize growth. It is also important to develop the labour force in order to compensate for the slower growth of the country's total population. China stands in the middle of the Asian group in the human capital index compiled by the World Economic Forum, and ranks 64th in the world. In the competitiveness index compiled by the same organization, China has a better standing: 28th place worldwide; but that score has a lot to do with the magnitude of its domestic market. It does not rank so well in terms of technological readiness, financial market development, higher education and training and goods market efficiency. Thus there is still plenty of work to be done to ensure that the Chinese economy and its domestic demand keep moving along the road to greater maturity.

For India, the potential estimated by the OECD for 2016 is 7.1%. The long-term forecasts are higher, though: 7.6% on average for the next five years. The Indian economy should benefit from two things: rapid population growth, and greater productivity through a new wave of investment and the liberalization of its economy. But in terms of competitiveness, India is only in 71st place worldwide due to the poor quality of its infrastructure, its macroeconomic environment and its health and primary education. Market efficiency and technological readiness are also deficient. If India is to remain attractive in terms of business opportunities, it is essential that the reform train keep steaming ahead.

As we mentioned earlier, Japan has been having demographic problems for quite some time now, and they are likely to intensify in the years to come. This is reflected in an anaemic potential of 0.6% for 2016; the growth predicted by the IMF for the medium term is not much better: 0.7%. Fortunately, good labour productivity and strong competitiveness come to the rescue of this economy. Japan ranks 5th in the human capital index, behind Finland, Norway, Switzerland and Canada. It holds 6th place in the competitiveness index.

Indonesia's growth potential, according to OECD estimates, is 5.8%, relatively stable since the beginning of the decade. The IMF predicts growth of 5.7% between now and 2020. Indonesia stands in 34th place in the competitiveness index, hindered by a lack of labour market efficiency (110th place).

The IMF is predicting medium-term growth of 3.5% in South Korea, a little higher than what has been recorded lately. South Korea stands in 26th place in the competitiveness index, with some strength in the quality of its infrastructures and macroeconomic environment, and some weakness in financial market development.

Australia's GDP growth potential should reach 2.6% in 2016 according to the OECD, while that of New Zealand is 2.9%. In future years, the IMF is expecting slightly stronger growth in Australia, and slightly weaker growth in New Zealand. The latter stands in 17th place in the competitiveness index, thanks to the quality of its institutions, health and primary education, and financial market development. Its principal, in fact its only, constraint is the small size of its market! In the human capital index, New Zealand ranks 9th. The situation in Australia is just as enviable, with a ranking of 22nd in the competitiveness index, thanks in particular to its financial market development (6th place). It does present a relative weakness in labour market efficiency, however (56th place) despite a good score in the human capital index (13th place).

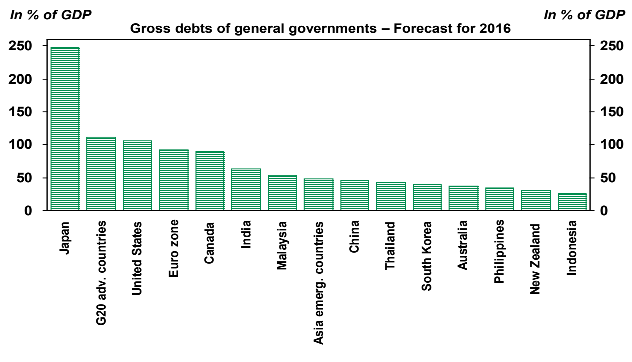
Other Asian countries distinguish themselves in the competitiveness index, in particular Hong Kong in 7th place and with a top ranking for infrastructure and financial market development. Taiwan stands in 14th place, Malaysia in 20th place and Thailand in 31st place.

DEBT PROBLEMS?

After the crisis of 2008–2009, much attention was focused on the budgetary impact it had on the public finances of the advanced countries, in particular the United States and Europe. This was less of an issue in Asia, apart from Japan which is still the developed country with the largest debt in proportion to its GDP. In general, the Asian countries managed to keep their public finances in better order. On average, the deficit as a percentage of GDP reached a peak of 9.6% in 2009 for the advanced countries that belong to the G20 (versus 1.9% two years earlier). For the emerging Asian countries, that proportion stood at 3.4% in 2009 and at 1.1% in 2007... nothing too serious. We would point out, though, that while the advanced countries appear to have improved their position since then, with an average deficit of 2.9% forecast by the IMF for 2016, the average deficit of the emerging countries of Asia seems to be deteriorating: from 1.2% in 2011 to an expected 3.0% in 2016. The source of that regression is China, where the public finances have fallen from a surplus in 2011 to a deficit of 1.9% this year and one of 2.3% forecast for next year. However, China's gross public debt (forecast at 46.0% of GDP in 2016) should stay below the average of the Asian emerging countries (47.5%

in 2016). It is India that finds itself in a more worrisome position (63.9% of GDP in 2016). But that is still favorable compared with the positions of the G20 advanced countries (111.9%), including Japan where the ratio should reach a whopping 247.8% of GDP in 2016 (graph 8).

Graph 8 – Japan has by far the largest public debt

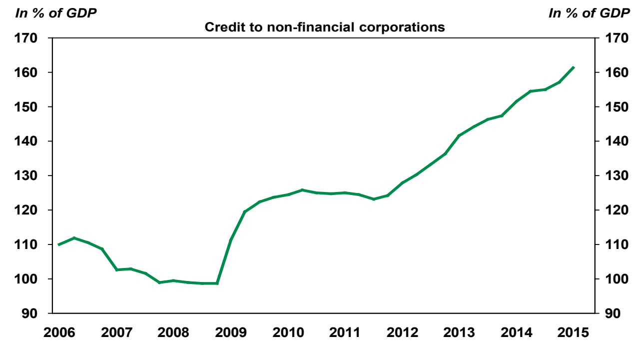


Sources: International Monetary Fund and Desjardins, Economic Studies

As far as the emerging countries are concerned, private debt is a subject of greater concern than public debt. Since these countries are still generally dependent on foreign investment, growth can easily be undermined by a tightening of financial conditions generated by less inclination towards risk on the part of international investors. Private sector debt deteriorated significantly during the 2000s, in tandem with the accelerated growth that most of the emerging countries experienced during that period. Thus, for all the emerging economies as a group, business debt as a percentage of GDP climbed from just under 50% in 2003 to over 60% from 2009 onwards. It accelerated again starting in 2012, when some of the principal emerging economies slowed down. The average ratio was around 75% in 2014. This trend has not spared the Asian countries; on the contrary. Among the emerging countries, it is China that shows some of the worst deterioration. Chinese business debt soared from 98.7% in the fall of 2008 to 161.3% at the beginning of 2015 (graph 9). Malaysia also posts a high level of business debt (188.2% at the beginning of 2015). However, the situation is generally less dramatic in the other prominent countries of Asia including South Korea (106.0%), Japan (103.6%), Singapore (81.3%), Australia (79.6%), Thailand (51.2%), India (50.7%) and Indonesia (22.5%).

In terms of foreign debt and net financial position, the main emerging economies of Asia find themselves in a healthier position now than they were in before the Asian crisis of the mid-1990s. Many of these countries have substantial currency reserves that can be used to cushion any blows that might hit them. The fact remains that the countries in the region that have high levels of business debt could see their growth hindered by tightening financial conditions. Higher corporate interest rates, or widening spreads between national bond yields and those of advanced countries like the United States, could generate more difficulties for the economy by limiting business profits and curbing investment.

Graph 9 – Chinese business debt has escalated in recent years



Sources: Bank for International Settlements and Desjardins, Economic Studies

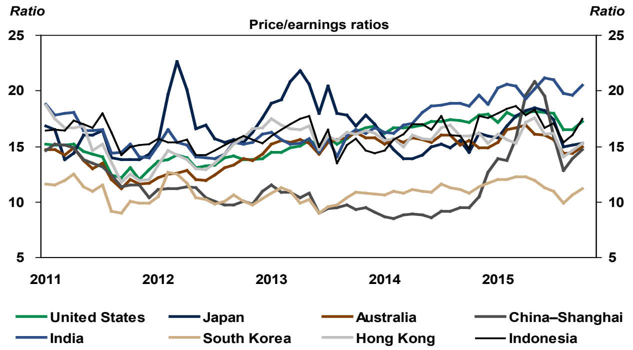
A STOCK MARKET UNDERMINED BY CHINESE IMMATURITY

Stock markets have been particularly volatile in Asia during the past year. This situation is mainly due to the Chinese market which, in the space of one year, managed to inflate a stock market bubble, and then burst it. Even though the Chinese stock market is relatively modest in terms of capitalization (especially compared with the Japanese market which is nearly 2.5 times larger), its abrupt movements shook all the markets of the world—including those in Asia, of course.

It must be pointed out that the main Asian markets have recorded some healthy growth in recent years. The MSCI Asia-Pacific index climbed by 13.0% in 2012 and by 8.4% in 2013. But it fell by 1.6% in 2014 due to a pullback by the South Korean stock market (-7.1%, according to the MSCI). Over the longer term, the Asian index has recorded a compound annual return of 4.6% since 2004. If we exclude Japan, this annual gain increases to 7.2%, which is slightly higher than the gain of 6.2% recorded in the United States and well above the feeble rate of 2.8% achieved in Europe. The fact remains that for a region facing considerable volatility stemming from stock markets that are still very immature in many countries, this is not a very spectacular return.

In terms of valuation, the price-earnings ratios are generally a bit below what may be found in the world's other major stock markets (graph 10 on page 7). For the Asia-Pacific market, the ratio stood at 13.8 at the end of October, well

Graph 10 – The price/earnings ratios of the Asian countries are generally a bit below that of the United States



Sources: Datastream, I/B/E/S and Desjardins, Economic Studies

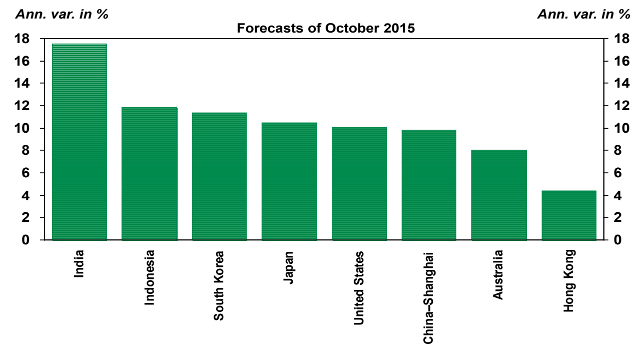
below the average of 18.7 recorded since 2001. If we exclude Japan, the ratio drops slightly to 12.9 (compared with an average of 14.2). In the United States, the price-earnings ratio recently stood at 17.3, and that of the euro zone was 16.9. Thus, in relation to business profits, the Asian stock markets do not seem to be really overvalued, in either relative or historical terms.

However, there are wide divergences between the principal countries of the region and even within them. In China, the Shanghai stock market, one of the most watched, posted a price-earnings ratio of 14.7 at the end of October (it was verging on 21.0 in the spring), but the Shenzhen stock market still showed a ratio of 37.2 (after surpassing 50 in the spring). This clearly illustrates the volatility and immaturity of the Chinese stock market; all the more so, in that it is even used as an instrument of economic policy by the political authorities; witness the announcements of this past summer, when the government attempted to reboot the market with certain measures, such as asset purchases by state-owned companies, or restrictions on transactions.

In Japan, the price-earnings indexes were fairly low at the end of October—around 15.5—while the historical average is slightly above 20.0. As for the Indian stock market, it is a little expensive. The price-earnings ratio of the MSCI index showed 20.5, compared with a historical average of 17.0. The New Zealand and Indonesian indexes were also sitting above their long-term averages. It is South Korea that posted the lowest price-earnings ratio among the principal economies of the region. The South Korean MSCI index posted a ratio of just 11.2. But the average since 2001 is also particularly low: 10.9. According to the historical trend, the market is therefore nearly balanced.

What happens next in these stock markets and in the Asian market in general will depend to a large extent on the economic situation and on how well businesses perform. According to analysts surveyed by the I/B/E/S (Institutional Brokers' Estimate System), the long-term average annual growth in earnings per share will be quite similar in the Asia-Pacific region (+9.9%) and in the United States (10.0%) and slightly less than in Europe (11.6%) (graph 11). But the growth rates will be a bit higher in South Korea (11.4%), Japan (10.5%) and especially India (17.5%). These forecasts have also stayed relatively stable since the beginning of the year. But we do note a downwards trend in forecasts of earnings per share in China. A long-term average annual gain of 15.8% was forecast in the spring, at the peak of the bubble; that growth rate has since dropped to less than 10% (one of the lowest recorded since 2004).

Graph 11 – Forecasts of long-term average annual growth in earnings per share



Sources: Datastream, I/B/E/S and Desjardins, Economic Studies

Like the other stock markets of the world, the Asian markets could keep benefiting from very low interest rates. The low interest rates in the advanced countries, the practically global absence of inflationary pressure and the currency war that several countries seem to be waging suggest that interest rates will remain generally low in the region. Furthermore, while global growth should pick up a bit in the years ahead, the Chinese economy is expected to keep gradually slowing down. The Chinese monetary authorities should keep the conditions very accommodative, in order to facilitate this economic shift.

There is another factor that will also be important for the stock markets of countries with more immature financial markets, like China. The volatility of the past year shines a spotlight on the "Wild West" nature of the Chinese stock market. In the long term, it would be in the interest of the Chinese stock market to be able to count on a more independent market, and one that is more open to the local and international markets. Given the massive size of its economy and the importance carried by Chinese companies in the world, the Chinese market has everything to gain by becoming more mature and more connected with the rest of the world. A few years ago, PricewaterhouseCoopers published a survey showing that nearly 80% of respondents believed that China would be the location of the majority of new share issues in 2025 (with India in second place). The extreme volatility of the Chinese market and the recent fragility of the emerging markets suggest that the enthusiasm of those days may be about to melt like snow in the spring.

The emerging equities markets, including Asia, no longer have the same appeal. The role of driver of the global economy that those economies (China in particular) formerly played is diminishing for various reasons, and it is normal for investors to now have less confidence in outlooks for stock market growth. Many opportunities still remain, or will materialize in the years to come; but the weaker growth of the Asian economy and the normalization of the Chinese economy will cease to offer the support they once did, and will no longer enable the emerging Asian markets to far outstrip the other markets of the world. It will therefore become necessary to seek out certain better-performing sectors (in particular the technology sector in China) where development is progressing faster, instead of simply relying on the movement of macroeconomic tides.

CONCLUSION: MANAGING A SUCCESSFUL TURNAROUND

In the medium and long terms, the Asian economy and markets will remain attractive in investors' eyes. Their weight in the global economy and the outlooks that are offered by the ongoing development of the emerging countries, in particular China and India, make them unavoidable. But Asia's success will depend on whether the reforms that are necessary in many countries go smoothly. China has already rolled up its sleeves. In the short term, the reforms are likely to contribute to the slowdown of real GDP growth, but the emergence of more robust domestic demand and more mature financial markets is a prerequisite for healthier and more sustained long-term growth. Success in these areas would inevitably lead to improvement in return outlooks. In India, the reforms are still in their early stages and enormous challenges lie ahead, but the growth there is already more encouraging. Even in Japan, efforts need to continue and growth must be supported by more solid solutions than a weak yen and expansionist monetary policy.

For the region as a whole, the future establishment of the TPP is a very positive prospect and offers attractive opportunities. Further liberalization of trade could give new impetus to a globalization trend that seems to be stagnating. Asia is also the region that has benefited the most from the rising tide of international trade. Some of the smaller economies in the region, like Vietnam, could greatly benefit from the TPP. It is expected that some Chinese companies will locate a portion of their operations in countries that have signed the agreement (at the expense of China, which is not a member).

In order for the Asian economies to make a real contribution to the global economy and provide a worthwhile return to investors, the entire region will have to keep advancing in terms of productivity and competitiveness, while continuing to develop its domestic market.

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